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State Impact: Expanding Medicaid and What it Could Mean for Texas

by The Honorable Talmadge Heflin, The Honorable Arlene Wohlgemuth, Elizabeth Young, and James Quintero

KEY POINTS

- Almost 25 percent, or $44.8 billion, of Texas' total 2010-11 budget is appropriated for the state's Medicaid program.
- Under a Senate Finance Committee proposal to expand Medicaid, state spending would increase significantly—over $6 billion in the first three years.

Congressional lawmakers, like their constituents, are divided on how to expand health care coverage, improve quality, and reduce costs—all at the same time.

Some policymakers have advocated for a free-market approach, insisting that patient-centered reforms would best improve the system. However, these ideas have gained little traction in Congress.*

Other legislators have championed a single-payer system in which health care is publicly financed and controlled. Though many, along with President Obama, have supported this position, projected costs have been shown to exceed $1 trillion over the next decade making government-run health care all but impractical.†

Still others have sought to build consensus around a Senate Finance Committee plan. Though the plan's exact details are still being worked out, a broad outline suggests the bill would require nearly "all Americans to have insurance or pay a penalty, expand Medicaid, and provide subsidies to help low-income people get coverage through an online exchange."[1]

For those who manage state finances, news of any proposal to extend health care via an expansion of Medicaid—the state-federal health insurance program for the poor and indigent—is troubling.

Many states are facing difficult fiscal situations and state Medicaid programs are a contributing factor. In fiscal year (FY) 2008, states spent, on average, 21 percent of their budgets on Medicaid–equal to the amount spent on elementary and secondary education, the single largest budget item.[2] The pace with which spending has grown has also been considerable.

According to the National Association of State Budget Officers (NASBO), states have seen the cost of their respective Medicaid programs nearly double since the turn of the century—from $89 billion in 2000 to $158 billion in 2008.[3] Since 1990, the combined 50 states have watched as spending has practically quintupled.[4]

The dramatic growth in Medicaid spending has come about for many reasons, including medical inflation, an aging population, minimum wage increases, and workforce shortages. Addressing these issues and reining in spending is a top priority for many state legislatures, but now, congressional reforms threaten to exacerbate the situation, particularly in states like Texas with sizable Medicaid programs.

Unfunded mandates from the federal government have the potential to overwhelm states like Texas where monthly Medicaid enrollment already totals 2.9 million[5] and costs have skyrocketed. Estimating the impact of such mandates, however, is better served by first understanding the cost and size of the program as it exists today.

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* Free market health care reform legislation—such as HR 2520: the Patient's Choice Act and HR 1495: the Comprehensive Health Care Reform Act of 2009—has been unable to make it out of committee.

† The Congressional Budget Office estimates that the provisions of HR 3200, America's Health Choice Act of 2009, will add over $1 trillion in deficit spending from 2010 to 2019. For more information, visit http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf.

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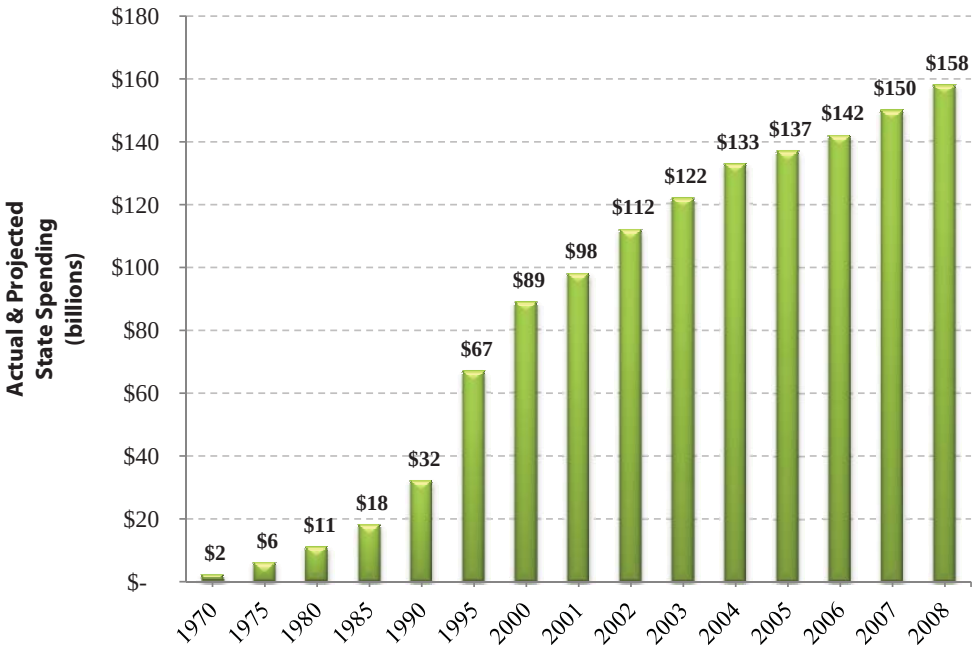
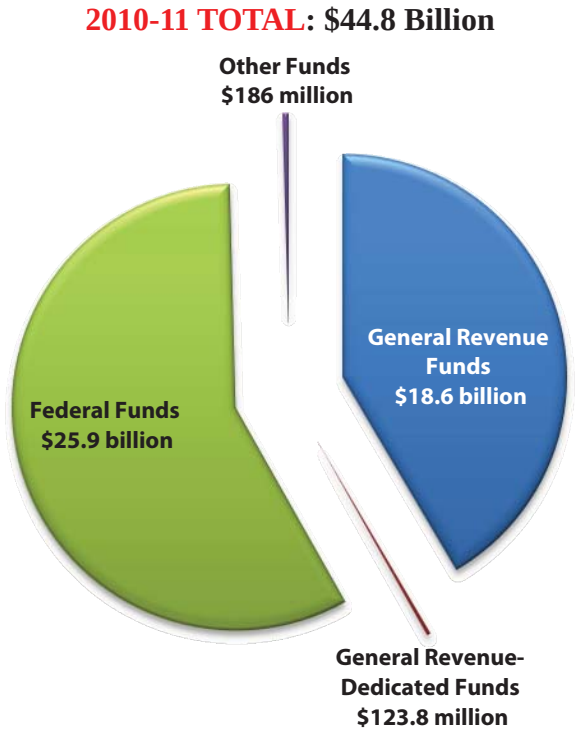
Figure 1: Amount States are Spending on Medicaid



Source: National Association of State Budget Officers, 2007 National Expenditure Report

Figure 2: Texas Medicaid Spending by Funding Source



Source: Legislative Budget Board, Summary of Conference Committee Report for Senate Bill 1

Comparison of Texas Medicaid Spending (billions)

	General Revenue Funds	General Revenue-Dedicated Funds	Federal Funds	Other Funds	All Funds
Est/Budget 2008-09	$16.1	$125.3	$23.7	$278.9	$40.3
Appropriations 2010-11	$18.6	$123.8	$25.9	$186	$44.8
Biennial Change	15.3%	(1.2%)	9%	(33.3%)	11.2%

Source: Legislative Budget Board, Summary of Conference Committee Report for Senate Bill 1

Current Texas Medicaid Spending

Texas' new 2010-11 budget appropriates a total of $44.8 billion[6] or nearly 25 percent of the All Funds budget to the state's Medicaid program. This figure marks a $4.5 billion growth in spending from the 2008-09 budget.

Of the $44.8 billion in total appropriations, Texas taxpayers are directly responsible for around $19 billion or 42 percent of the program's cost, with federal funds covering the rest.

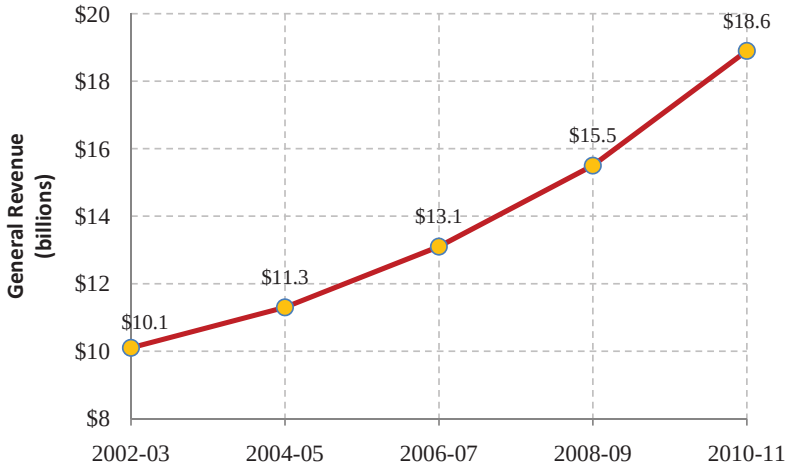
Overall, appropriations for the program increased by 11 percent over the previous biennium, with the largest percentage increase, 15.3 percent, coming from the state's General Revenue (GR) Fund.

Since appropriations from GR consist mostly of tax revenue, Medicaid's $2.5 billion increase in GR likely translates into a heavier burden for the state's taxpayers. This continues a trend of asking the state's taxpayers to directly pay billions for public health care services that they may or may not use.

Over the past five biennia, Medicaid spending paid for out of GR has nearly doubled—up from $10.1 billion in 2002-03 to $18.6 billion in the current biennium. Should the cost of Medicaid continue trending in the same direction, the state's taxpayers could very well be on the hook for $20 billion, or more, for the program by the next biennium.

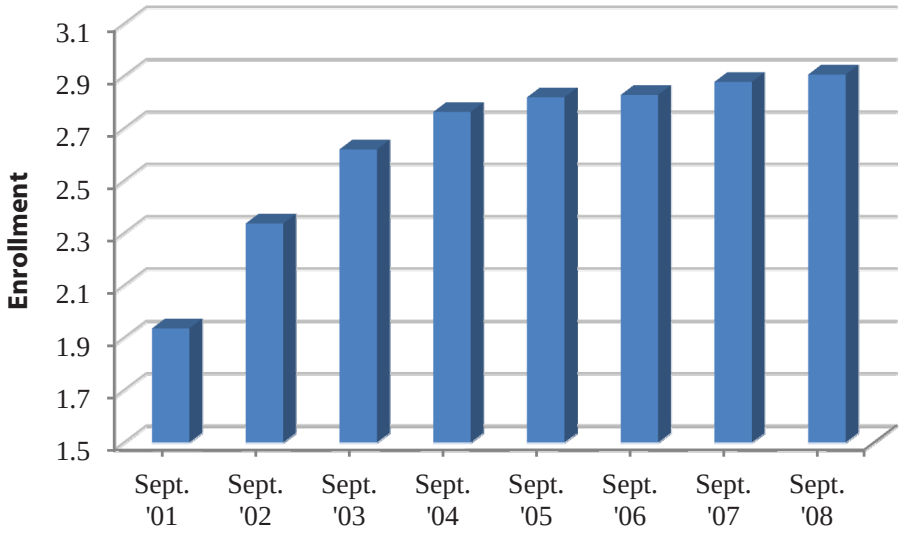
As the cost of the state's Medicaid program continues to soar, a greater share of state resources will be needed just to sustain the program, meaning that less money will be available for other programs.

Figure 3: State Share of Medicaid Program



Source: Legislative Budget Board, Fiscal Size Up

Figure 4: Texas Medicaid Monthly Enrollment



Source: Texas Health and Human Services Commission

Enrollment Is a Growing Problem

Enrollment, like costs, for Texas' Medicaid program has increased significantly since the early 2000s.

Between September 2001 and September 2008, the number of Texans enrolled in Medicaid per month has increased from 1.9 million to 2.9 million—or nearly 50 percent.[7] Some anticipate that this figure will continue to increase as uncertain economic conditions persist.

According to the Legislative Budget Board (LBB), the number of Medicaid enrollees is projected to grow from nearly 3 million in FY 2009 to almost 3.2 million by FY 2011.[8] The increase in monthly Medicaid enrollment is happening at a time when a growing number of health care professionals are voicing their displeasure with the program.

In a 2008 Physician Survey from the Texas Medical Association, the percentage of doctors willing to accept new Medicaid patients totaled only 42 percent. Many physicians have opted to close all or part of their services to the program, citing "declining reimbursement" and "demands on physician time."[9]

Both enrollment and dissatisfaction are growing; these are two important factors Congress should consider before overwhelming an already burgeoning and burdened system.

Medicaid Fraud

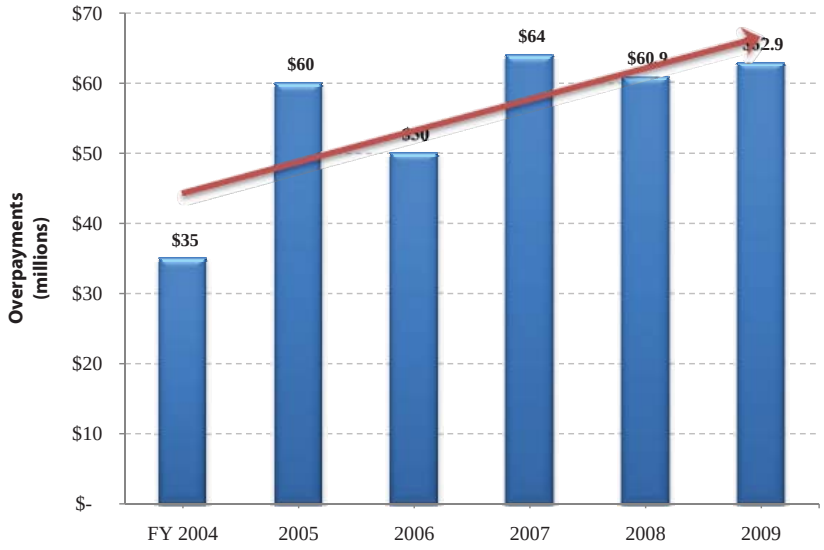
A third dimension affecting both the program's size and cost is fraud.

Fraud and overpayments are a growing concern that the Attorney General's (AG) office has been tasked with watching closely. Despite having been recognized by the Center for Medicare and Medicaid Services (CMS) for its commendable fraud recovery program, the AG's office still presided over a Texas Medicaid program that saw fraud total well over $300 million from FY 2004 to 2009.[10]

During the 2008-09 biennium, the AG's office deployed 230 full-time employees to investigate abuses, at a cost of nearly $30 million.[11]

If history is a lesson, the cost of fraudulent activity will likely continue to add up as more state and federal funding goes to the program—all the more quickly, perhaps, if Congress' overhaul of the nation's health care system is successful.

Figure 5: Medicaid Fraud & Overpayments



Source: Legislative Budget Board, Fiscal Size Up

What Does Medicaid Expansion Mean for Texas?

Texas' Medicaid program is one of the largest and costliest in the nation; and yet, if government-centered health care reform legislation is passed by Congress, the program and its problems could get even bigger.

Under Senate Finance Committee Chairman Max Baucus' still-developing plan, the America's Healthy Future Act of 2009,* the Texas Health and Human Services Commission estimates that:

- The program's costs will rise by more than $20 billion over the next decade; and
- The number of people enrolled in the program will grow by more than 2.5 million.

Dumping these state and federal resources into the Medicaid program is not the right answer. Already the system consumes an enormous amount of public resources. Adding to it would only worsen the burden on states, enlarge the pool of health care recipients dependent on government aid, and worsen a growing problem of fraud.

Further Consequences

All this spending on Medicaid has failed to achieve access to health care for many enrolled recipients. Provider payments that were too low restricted the number of physicians and dentists willing to participate in the program. The resulting lack of access was the basis for the *Frew v Hawkins* lawsuit that forced a 25 percent increase in rates for physicians in 2007. Even this substantial rate change has not sufficiently increased the pool of physicians willing to accept Medicaid patients. As noted by a Canadian Supreme Court Justice, "Access to a waiting line is not access to health care."

All of the states will face even more serious Medicaid funding problems in the near future with the aging of the Baby Boom generation. Medicaid was established primarily to benefit single mothers and their children. Today, that population represents roughly two-thirds of the Medicaid population but only one-third of the Medicaid costs. The overwhelming majority of costs are for long-term care for the elderly and disabled. Texas is in more jeopardy than other states as outlined by Steven Moses in an April 2007 issue of the Texas Public Policy Foundation's *Health News*:

* For more information, visit the United States Senate Committee on Finance homepage: http://finance.senate.gov/.

The problem is aggravated in Texas by rapid population increases and relatively high percentages of poor, minorities, older women, and the disabled elderly—the populations most likely to need long-term care.

"When I look forward to the future aging of the population, especially the growth of the oldest old, I see us straining even to cover the [relatively lower] cost of home and community-based services," said former Texas Health and Human Services Executive Commissioner Albert Hawkins. "The problem is the gross numbers, not just the per-recipient costs. It's just the raw number of people getting older in Texas."

With this known funding crisis drawing ever closer, adding to the state's Medicaid population at this time is truly adding fuel to the proverbial fire.

Finding Solutions

Expanding the Medicaid programs of Texas or any other state is not the right way to achieve meaningful health care reform.

Rather, improving the nation's ailing health care system requires a completely different approach—one that improves the doctor-patient relationship and minimizes bureaucratic interference.

To explain how to achieve meaningful results, the Foundation commissioned economist Dr. Arthur Laffer to produce the research report, *The Prognosis for National Health Insurance*.[12] Here are the recommendations:

- **Begin with individual ownership of insurance policies.** The tax deduction that allows employers to own your insurance should instead be given to the individual.

- **Leverage Health Savings Accounts (HSAs).** HSAs empower individuals to monitor their health care costs and create incentives for individuals to use only necessary services.

- **Allow the interstate purchasing of insurance.** Policies in some states are more affordable because they include fewer bells and whistles. Consumers should be empowered to decide which benefits they need and what prices they are willing to pay.

- **Reduce the number of mandated benefits that insurers are required to cover.** Empowering consumers to choose which benefits they need is effective only if insurers are able to fill these needs.

- **Reallocate the majority of Medicaid spending into simple vouchers for low-income individuals to purchase their own insurance.** An income-based sliding scale voucher program would eliminate much of the massive bureaucracy needed to implement today's complex and burdensome Medicaid system and produce considerable cost savings.

- **Eliminate unnecessary scope-of-practice laws and allow non-physician health care professionals to practice to the extent of their education and training.** Retail clinics have shown that increasing the provider pool safely increases competition and access to care—empowering patients to decide from whom they receive their care.

- **Reform tort liability laws.** Defensive medicine needlessly drives up medical costs and creates an adversarial relationship between doctors and patients.

These solutions, as well as the others outlined in Laffer's research, present taxpayers and health care recipients with a much better alternative than simply throwing more tax dollars at the Medicaid program.

Effective reforms are patient-centered, not government-centered, engaging the power of the consumer in a free market to hold down costs instead of a government committee. ✯

Endnotes

[1] Laura Litvan, "Senators Plan Effort to Amend Baucus Plan on Public Option, Tax" *Bloomberg* (21 Sept. 2009) http://bloomberg.com/apps/news?pid=20601070&sid=aF1_hZs7IvDM.

[2] National Association of State Budget Officers, *2007 State Expenditure Report* (Dec. 2008) http://www.nasbo.org/Publications/PDFs/FY07%20State%20Expenditure%20Report.pdf.

[3] Ibid.

[4] Ibid.

[5] Texas Health and Human Services, "Final Count, Medicaid Enrollment by Month," http://www.hhsc.state.tx.us/research/MedicaidEnrollment/meByMonthCompletedCount.html.

[6] Legislative Budget Board, Conference Committee Report for Senate Bill 1: For the 2010-2011 Biennium (May 2009) http://www.lbb.state.tx.us/Bill_81/5_Conference/Bill-81-5_Conference_Summary_0509.pdf.

[7] Texas Health and Human Services, "Texas Medicaid Enrollment Statistics, Medicaid Enrollment by Month," http://www.hhsc.state.tx.us/research/MedicaidEnrollment/meByMonthCompletedCount.html.

[8] Legislative Budget Board, *Conference Committee Report for Senate Bill 1: For the 2010-2011 Biennium* (May 2009) http://www.lbb.state.tx.us/Bill_81/5_Conference/Bill-81-5_Conference_Summary_0509.pdf .

[9] Crystal Conde, "Primary Care Crisis," *Texas Medicine* (Dec. 2008) http://www.texmed.org/Template.aspx?id=7291.

[10] Legislative Budget Board, Fiscal Size-Up from respective bienniums.

[11] Ibid.

[12] Donna Arduin, Arthur Laffer, and Wayne Winegarden, *The Prognosis for National Health Insurance* (Aug. 2009) http://lafferhealth carereport.org/files/Laffer-Health careReport.pdf.

About the Authors

The Honorable Talmadge Heflin is the Director of the Texas Public Policy Foundation's Center for Fiscal Policy. For 11 terms, Talmadge served the people of Harris County as a state representative. Well regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and Appropriations committees.

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